

MONEYTREE™ Survey

Venture capital investments in Israel in the first quarter of 2003 - at least \$143 million - a decrease of approximately 58% in the volume of investments from the corresponding quarter last year.

41% of venture capital funds made no investments in the first quarter of the year; only 2 seed stage deals took place; the highest number of deals - life sciences (33%)

Q1
2003
RESULTS
ISRAEL
REPORT

The findings of the survey show a continuing decrease in investments in high-tech companies backed by venture capital funds (where one of the investors in the first round of financing is a venture capital fund): high-tech companies raised \$ 143 million in the first quarter of 2003, a decrease of some 29% as compared to the previous quarter (\$ 200 million) and 58% as compared to the corresponding period in the previous year (\$ 344 million). It also shows a sharp drop of 30% in the number of companies that raised capital this quarter as compared to the previous quarter (60 companies and 86 companies, respectively)



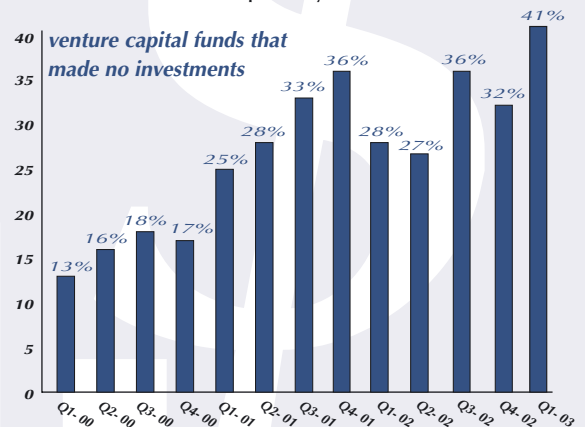
Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader

According to Fellus, there is an evident trend of reduction in the venture capital backed high-tech sector, which is reflected in certain principal parameters of the survey: the continuing decrease in the volume of investments, the number of funds that made no investments during the quarter and the fact that only 2 seed stage companies received finance. These findings, together with the minute amounts of capital raised by funds in 2002 and the uncertainty as to the funds' ability to raise additional capital in the near future, portray the constraints under which the sector operates.

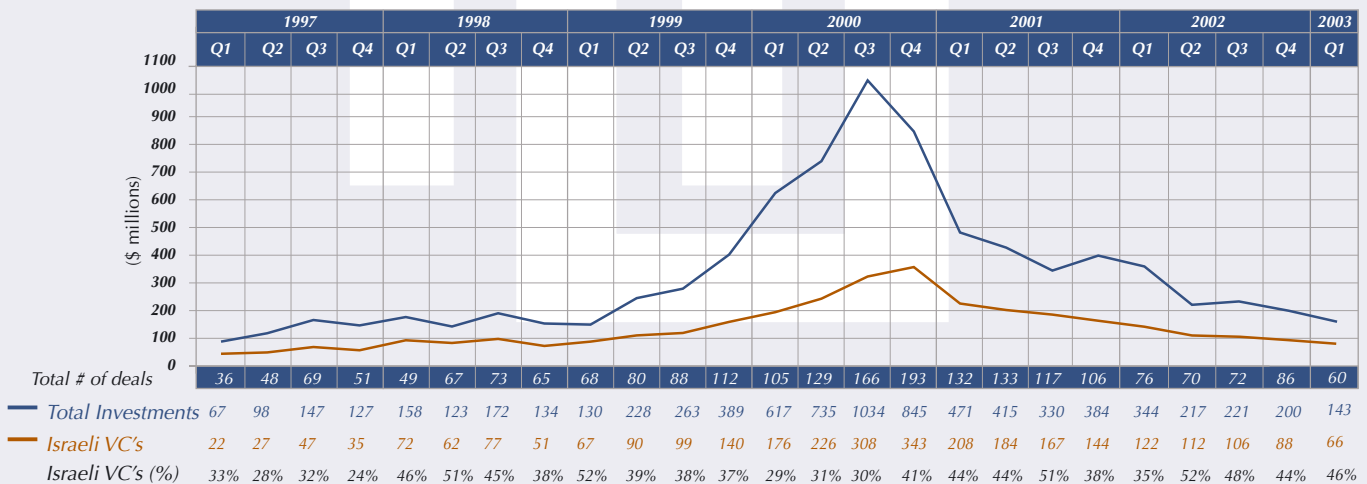


Ms. Adi Bengal,
Israeli MoneyTree
Project Manager

Analysis of the findings reveals the lowest level of investment activities by venture capital funds since 1997 - the year in which the **MONEYTREE™** survey was first carried out: 31 venture capital funds, constituting 41% of the number of funds that participated in the survey, made no investments during the quarter (either in new companies or in their portfolio companies), as compared to 32% in the



Israeli VC's investment level



The Israeli **MONEYTREE™** project manager, Adi Bengal, adds that the survey shows a continuing decrease in the volume of investments made by local funds: \$66 million, as compared to \$88 million in the preceding quarter and \$122 million in the first quarter of 2002. Nevertheless, Bengal notes that the local funds have maintained their relative weight in total investments, accounting for 46% of investments in monetary terms. The remaining part was invested both by foreign venture capital funds and by other investors.

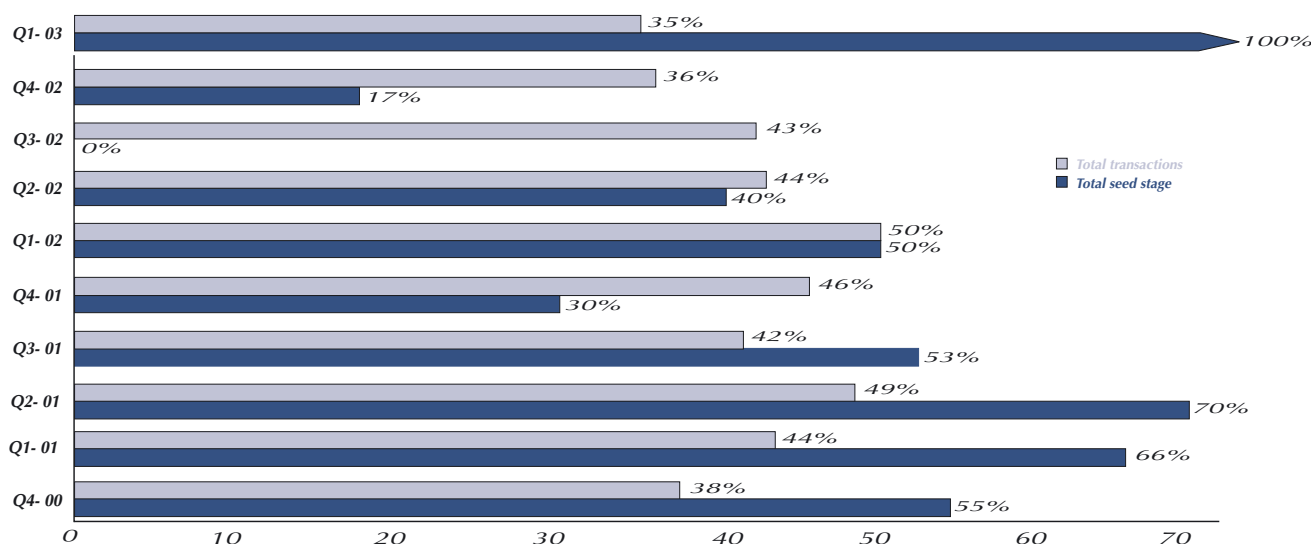
The analysis of overseas investments shows that in the first quarter of 2003 local venture capital funds invested \$23 million in 15 foreign companies that have no activities in Israel. The average investment of local funds in foreign companies for the quarter was \$1.4 million - twice the amount invested in Israeli companies.

ANALYSIS BY PLACE OF REGISTRATION

According to the findings of the **MONEYTREE™** Survey, adds Fellus, of the 60 companies that raised capital this quarter, 39 are registered in Israel and the rest are registered in the United States. Half of the companies that are registered in Israel are from the life sciences sector. The average investment in a foreign company was \$2.9 million, as compared to an average investment of \$2.1 million in an Israeli registered company. The analysis of seed stage investments shows that no investments were made in Israeli parent companies.

Percentage of companies registered as foreign

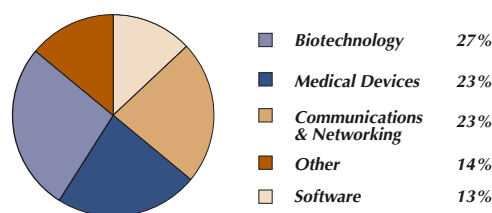
(vast majority in the U.S.)



COMPANIES RECEIVING GRANTS FROM THE CHIEF SCIENTIST

According to Fellus, the quarter showed an increase in the number of companies that received grants from the chief scientist: half of the companies that raised capital in the quarter received such grants, as compared to 44% in the previous quarter and 37% in the corresponding period last year. The survey shows that 25 of the companies that received grants from the Chief Scientist during the quarter are registered as Israeli companies and the rest are registered in the United States.

Companies Receiving Grants from the Chief Scientist by Industry - Q1-2003 (% of Total)



VENTURE CAPITAL INVESTMENTS BY INDUSTRY

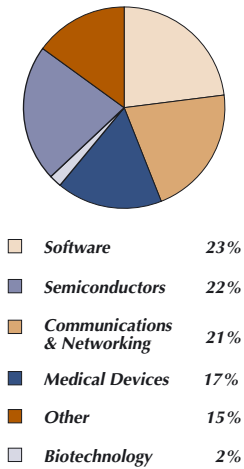
In the first quarter of 2003, the **life sciences** sector recorded an unprecedented achievement in the venture capital industry: 33% of the deals for the quarter were carried out in this sector, which attracted \$27 million (19% of the total volume of investments in monetary terms). An analysis of the sector shows that the field of medical devices accounted for 10 deals in the aggregate amount of \$24 million (including a \$13 million transaction).

According to Fellus, after holding the second place for several quarters, the **software** sector led the investments in the first quarter of 2003, both in the number of deals and in the volume of investments. 13 software companies raised capital in the aggregate amount of \$32 million - similar to the levels recorded in the previous quarter. The average investment in a software company was \$2.5 million.

The **semiconductor** sector attracted \$31 million in the quarter, which was infused into only 4 companies (two large deals accounted for \$26 million).

Fellus adds that, the entrenched position of the **communications & networking** sector substantially weakened in the first quarter of the year: only 10 companies in this sector raised capital in the aggregate amount of \$30 million (17% of the number of deals and 21% in monetary terms), as compared to \$65 million which was infused into 28 companies in the preceding quarter (33% both in the number of deals and in monetary terms).

VC Investments by Industry - Q1-2003 (% of Total)



VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

The analysis by investment round shows that only 2 **seed stage** companies (the lowest level ever recorded) raised approximately \$8 million in the first quarter of the year, as compared to 6 companies that raised the same amount in the previous quarter.

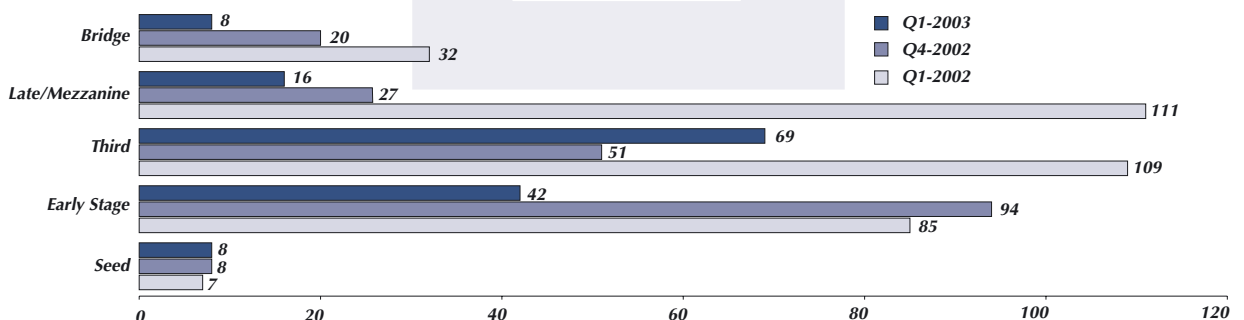
The **early stage** rounds (the first and second rounds together) attracted 29% of the volume of investments and 27% of the number of deals for the quarter: 22 early stage companies raised \$42 million, as compared to 25 companies and \$94 million in the previous quarter. The average investment in these rounds was \$1.9 million, as compared to \$3.8 million in the previous quarter.

In the **Third round**, 12 companies raised \$69 million. This round accounted for 48% of total investments in monetary terms and 20% of the number of deals for the quarter. The average investment in this round was \$5.8 million, as compared to \$2.7 million in the previous quarter (4 of the 12 companies raised more than \$10 million each).

In **later stage** rounds (fourth to mezzanine), \$16 million was invested in 8 companies, as compared to \$24 million and 5 companies in the last quarter of 2002.

In the first quarter of 2003, 16 companies raised \$8 million by way of **bridge loans**, as compared to \$20 million infused into 30 companies in the preceding quarter and 32 companies that received \$32 million in the corresponding period last year.

Total Investments by Round (\$M)



Average Deal Size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q1-2003 (listed alphabetically)

Ag-Tech Fund
Aig Orion Fund LP
ALICEVENTURES
Alon Technology Ventures Ltd.
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Astra Technological Investments Ltd.
Atara Technologies Ventures Ltd
Benchmark Israel
Bio-Medical Investments
BRM Capital Management Inc.
Carmel Software Fund
Catalyst Fund L.P.
Cedar (Israel) Financial Advisors
Clal Biotechnology Industries Ltd.
Concord Venture Fund
Corex Industries Management Ltd.
D.Z. Israel Associates Ltd.
Decima Ventures
Delta Ventures Ltd.
Denali Ventures LLC
Edmond De Rothshchild Venture
Capital Management
Eucalyptus Ventures
Eurofund L.P.
Evergreen Partners
First IsraTech Fund L.P.
Formula Ventures Ltd

Gemini Israel Venture Funds Ltd
Genesis Partners L.P.
Genius Technologies
Gilbridge
Giza Venture Capital
Global Catalyst Partners, LP
Inventech Investments Company Ltd.
Israel Health Care Ventures
Israel Infinity Venture Capital
Management Ltd.
Jerusalem Global Ventures
Jerusalem Venture Partners
Kaptech Holdings Ltd.
Koor Corporate VC
Magnum Communications Fund
Marathon Venture Capital Fund Ltd.
Medica Venture Partners
Millenium Materials Fund Management
Mofet Venture Capital Fund
Management (1992) Ltd.
Montifyori Partner
Neurone Venture Capital Fund
Ofar Technologies Ltd.
Orbotech
Pamot Asset management Ltd.
Peregrine Ventures
Pitango Venture Capital (previously Polaris)
Platinum Venture Capital
Portview Communications Partners

Proseed Venture Capital Fund
Sadot R&D Fund Ltd.
Seed Management Associates, Ltd.
Sequoia Capital Seed Fund
Shalom Equity Fund
Shrem, Fudim, Kelner & Co. Ltd.
Spring Technologies L.P.
StageOne Ventures
Steps - Ventures
SVM Star Ventures Capital Management Ltd.
Tamar Technology Ventures
Tamir Fishman Ventures(II)
Technoplus Ventures
Technorov Holding (1993) Ltd.
Teuza - A Fairchild Technology Venture Ltd.
The Challenge Fund - Etgar L.P.
Vectory Investment Company Ltd.
Veritas Venture Capital Management Ltd.
Vertex Management (III) Ltd.
Walden Israel Ltd.
Yozma Management & Investments Ltd.

ABOUT THE ISRAELI MONEYTREE™

Kesselman & Kesselman PricewaterhouseCoopers conducts the Israeli **MONEYTREE™** Survey quarterly to promote investments in Israeli start-up ventures. We appreciate the support of the Venture Capital industry in this endeavor. The Israeli survey, initiated in 1997, has become the definitive source for Israeli venture investment data.

For more information on PricewaterhouseCoopers **MONEYTREE™** survey, please call Adi Bengal, Israeli **MONEYTREE™** Project Manager, at 972-3-7954619, e-mail: adi.bengal@il.pwcglobal.com or visit our web site: <http://www.pwcmoneytree.com>.

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